versity case as though the action were brought in the State Court.

The opinion of the Circuit Court on rehearing states:

"The defendants allege that the suit at bar cannot be maintained because the law of Delaware will not authorize the enjoining of a continuing libel. It is upon this point that the defendants place their greatest reliance. The defendants contend that the rule of *Erie Railroad Co. v. Tompkins,* 304 U. S. 64, applies in the case at bar. It does so far as concerned substantive law, * * *.

"There is no doubt that the substantive law of Delaware gives the person who has received legal injury a right of action for trade libel or disparagement of goods. The question which we must decide therefore may be stated as follows: What is the remedy which may be granted in the District Court of Delaware? In *Sprague v. Ticonic Bank,* 307 U. S. 161, 164-165, the Supreme Court by Mr. Justice Frankfurter, held, following earlier decisions, including *Payne v. Hook,* 7 Wall, 425, 430, that 'The suits "in equity" of which these courts [of federal equity jurisdiction] were given "cognizance" ever since the First Judiciary Act, constituted that body of remedies, procedures and practices which theretofore had been evolved in the English Court of Chancery, subject, of course, to modifications by Congress, *e. g. Michaelson v. United States,* 266 U. S. 42.' We think that this must be deemed to be an indication from the Supreme Court that insofar as equitable remedies are concerned federal courts are to grant them in accordance with their own rules which have been developed out of the English Chancery practice. The words of Mr. Justice Frankfurter in the Ticonic Bank case are a plain indication that the rule enunciated in *Payne v. Hook,* supra, p. 430, 'The equity jurisdiction conferred on the Federal Courts is the same that the High Court of Chan-

> cery in England possesses: is subject to neither limitation or restraint by state legislation, and is uniform throughout the different States of the Union', is the law so far at least as the granting of equitable remedies is concerned. The rule of Erie R. Co. v. Tompkins being determinative of substantive rights, there is still preserved to the federal courts a uniform basis for granting equitable remedies in cases in which substantive rights have arisen under state law."

The difficulty we think is in distinguishing between the right of action, which is a matter of substantive law, and mere matters of remedy and procedure.[3]

The substantive law of Delaware gives no right of action in equity for libel or trade libel. This is a matter of Delaware public policy. We are not here concerned with its historical basis nor its wisdom. We are concerned only with the principle that a Federal court, sitting in Delaware in a diversity case, is required to apply the existing Delaware law and cannot adopt what it deems to be a better rule (*Klaxon v. Stentor Elec. Mfg. Co.*, 313 U. S. 487).[4]

Apparently the Circuit Court arrived at the conclusion that the Delaware Federal equity court could enjoin trade

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[3] *Sprague v. Ticonic Bank*, 307 U. S. 161, cited by the Circuit Court, relates to a typical matter of procedure, i. e. costs.

[4] If the inquiry were pertinent, undoubtedly the rule so firmly fixed would find ample justification in the reluctance of the Colonies to grant arbitrary power to a Chancellor, particularly where it might impinge upon the right of free speech or jury trial or in any case where the local public policy deemed the remedy for damages adequate. This applies with special force in Delaware where since Colonial days the Chancellor has been limited by statute and has been specifically denied "power" to assume jurisdiction and grant relief in all cases where there is a "sufficient

libel, and was not limited as the Chancellor would be, because it was of the opinion that the granting or denial of an injunction against publication was merely a matter of remedy. However, we submit that here the Court erred because the essential matter involved was jurisdiction and the recognition of a right of action, not merely remedy. The Delaware equity court can not take jurisdiction and does not recognize the right.

It seems to us axiomatic that whether or not a right of action exists is a matter of substantive law and goes far beyond any question of remedy, which arises only after any questions involving the right of action or jurisdiction have been solved. This was clearly recognized by the Delaware Federal Court in the case of *Edison v. Thomas Edison, Jr. Chemical Co.*, 128 Fed. 957 [Del.].

The implications of the new contrary theory suggested by the Circuit Court are infinite. They are best illustrated by the instant case.

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remedy'' at law. Vol. 1, Del. Laws, Chap. 54, Sec. 25; Delaware Revised Code, 1935, Sec. 4367. See *Fox v. Wharton*, 5 Del. Ch. 200. The power of the Chancellor is also limited by Sec. 5, Art. 1 of the Delaware Constitution which guarantees freedom of speech. See *Citizens Light, Etc. Co. v. Montgomery etc. Co.*, 171 Fed. 553, construing similar provisions of Alabama Constitution. The Colonies followed the Blackstonian concept against prior restraint (29 Harvard L. R. at 664).

**B. Even if it be held that there is an "Independent Federal Equity Law", the Erie R. Co. case does not permit a Federal Equity Court, in a diversity case, to apply the local law in a different manner than as applied by the State Court, particularly where this would result in the denial of a substantive right, such as a trial by jury.**

This problem is somewhat akin to that discussed in Point I, but has even more serious implications.

The Delaware local law, following the American rule, classifies the instant facts as libel and nothing else. It provides as the exclusive form of action the time-honored form of action on the case, and in Delaware such action is at law and *with trial by jury.* That right of action has its traditional elements of false words, malice, and in the case of trade libel, special damage. (Prof. Jeremiah Smith, "Disparagement of Property", 13 Columbia Law Review, 13). The opinion of the Circuit Court would permit a non-resident of Delaware to institute an action in equity in the Delaware Federal Court against a resident of Delaware and thereby deny to the resident defendant the right of jury trial which the Constitution of his own State guarantees to him. In *Citizens Light, Heat & Power Co. v. Montgomery &c. Co.*, 171 Fed. 553, the Federal Court, construing a provision of the Alabama constitution (Art. 1, § 4) on the subject of free speech which is almost precisely the same as the similar provision in the Delaware Constitution, said: "Defendant has a right to have the truth or falsity of the issue determined by a jury trial as at common law. That it cannot get in a court of equity. * * * The Court cannot go outside of the Constitution, or hold that to be an inadequate remedy which the Constitution" (of Alabama) "has declared to be the sole remedy. The wrongs and injury

* * * are parts of the price the people * * * have declared it is better to pay, than to encounter the evils which might result if the courts were allowed to take the alleged * * * libeller by the throat, in advance."

It is true that the Delaware law also recognizes an entirely different right of action, known as the traditional "unfair competition". This is narrowly limited to "passing off", name piracy, trademark infringement, physical interference with customers, boycott, etc. The two cases cited by Judge Biggs (footnote, page 6) are of this type. And where even name piracy is essentially libel, it is not "unfair competition" as known to equity, and there is no right of action in equity. *Edison v. Thomas Edison, Jr. Chemical Co.,* 128 Fed. 957 [Del.]; *Flint et al. v. Hutchinson Smoke Burner Co.,* 110 Mo. 492 at 501.

The cases cited by Judge Biggs at page 11 are mainly Federal cases, predating the *Erie R. Co.* case, involving either physical interference with interstate commerce in labor disputes, or infringement of patent, for which there is independent Federal jurisdiction. As noted by Dean Pound in 29 Harvard Law Review 640, prior to the *Erie R. Co.* case, there may have been some tendency of the Federal courts to build up an independent Federal cause of action in unfair competition, irrespective of local law. But Professor Chaffee in 53 Harvard Law Review 1289 recognizes that this has all been changed by the *Erie R. Co.* doctrine.

As we understand the *Erie R. Co.* doctrine, the transfer from the State court to a Federal court, solely upon the ground of diversity of citizenship, cannot change the substantial rights of the parties so that a different legal result is applied to the same facts. The cause of action for unfair competition in a diversity case is controlled by the local law.

*Pecheur Lozenge Co. Inc. v. National Candy Co.*, — U. S. —, 86 L. ed. 739.

If the Federal courts are to disregard the usual elements and limitations of the action of unfair competition as known to the local law, they must have a similar right to recast or eliminate the elements of every other cause of action under the local law and achieve by indirection the result which the local law may forbid. Federal jurisdiction in diversity cases was intended only to assure a non-resident plaintiff against local prejudice which it was thought might exist in certain State Courts; its theme was equality; it was not intended to grant a non-resident plaintiff a greater right than a resident plaintiff, nor to deprive a resident defendant of rights accorded to him by his local law.

As we understand the opinion, the Circuit Court has created a new principle unknown to the local law, that whenever there is competition, and in connection therewith anything is done which is "unfair" in an ethical sense, it may be a Federal cause of action for unfair competition, and although the specific tort could not be enjoined under local law as a libel, it may be enjoined by giving it a new name.[5] If this new principle is established in the Federal courts, we have the censorship of business morals which now prevails

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[5] Efforts to avoid the rule in trade libel by calling it "unfair competition", suggested by some of the academicians, have heretofore been rejected by the courts. (See e. g. *Flint et al. v. Hutchinson Smoke Burner Co.*, 110 Mo. 492; *Edison v. Thomas A. Edison Jr. Chem. Co.*, 128 Fed. 957, and other citations, Notes 1 and 2.)

Professor Chaffee in 53 Harvard L. R. at page 1321 seems to dispose of the theory by his statement that unfair competition has not much more to do with unfairness in the popular sense than police power has to do with police.

only in Germany (see 47 Yale Law Review 1304). The Federal courts will have time for little other business.[6] It would prevent proper advice to the public as to the true identity of the goods sold under a "secondary term", and permit the usurper in the end to claim that the error had gone beyond correction. See *F. T. C. v. Algoma Lumber Co.*, 291 U. S. 67; and *F. T. C. v. Winsted Hosiery Co.*, 258 U. S. 483. Specifically, it would nullify the injunction of the Second Circuit in *Indiana Quartered Oak Co. v. F. T. C.*, 26 Fed. (2d) 340 and permit plaintiffs to disregard the agreement upon which they secured the modification in 58 Fed. (2d) 182, and render useless the efforts of the Federal Trade Commission to prevent substitution of one substance for another. This is its major function because the common law gives no such remedy (see *American Washboard Co. v. Saginaw*, 103 Fed. 281; *Mosler Safe Co. v. Ely Norris Safe Co.*, 273 U. S. 132; *F. T. C. v. Winsted Hosiery Co.*, 258 U. S. 483; Henderson, "The Federal Trade Commission", p. 179).

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[6] Even the academicians are not agreed as to how far the "new rule" should go. Dean Pound in 29 Harvard L. R. 640 suggests that it be limited generally to repetition of a libel, where a jury has already held the same matter to be libelous in a common law action. On the other hand, 47 Yale Review 1304 argues for the German system, which of course is founded on a different system of law and a provision of German civil code. Wigmore's theory is that all competition is harmful (53 Harvard L. R. 1316, 1317). Professor Chaffee disagrees and shows the need for caution —"The Court will be beginning a permanent job of business management." *Id.* See *Francis v. Flinn*, 118 U. S. 385.

**Conclusion.**

We respectfully submit that the Writ of Certiorari ıould issue.

Respectfully submitted,

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IN THE

# Supreme Court of the United States

October Term, 1941.

No. 286.

MAHOGANY ASSOCIATION, INC., and THOMPSON MAHOGANY COMPANY,
*(Defendants-Appellees Below)*,
*Petitioners*,

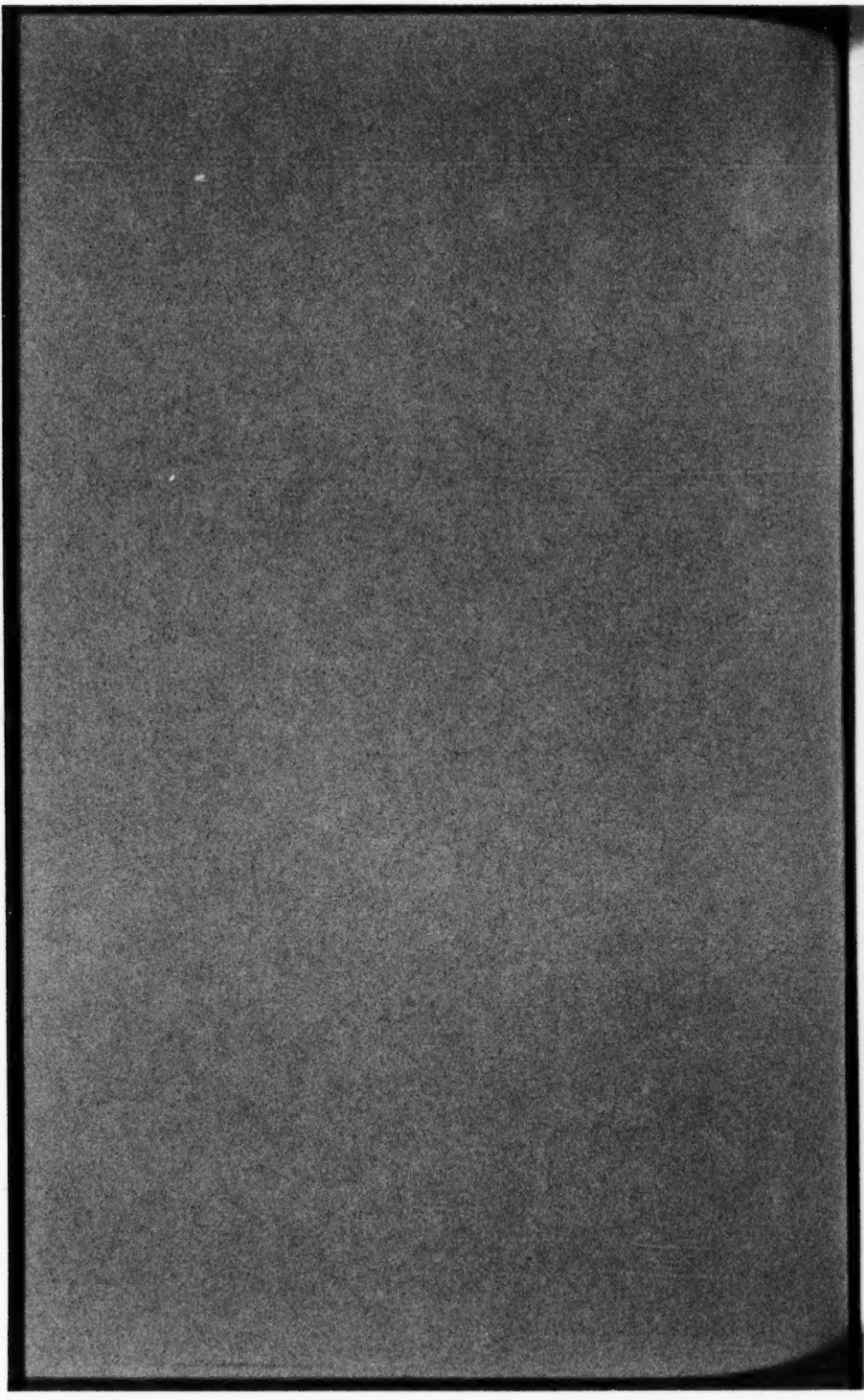
*v.*

BLACK & YATES, INC., THOMAS E. POWE LUMBER COMPANY and WALTER G. SCRIM,
*(Plaintiffs-Appellants Below)*,
*Respondents.*

## Addendum to Brief in Support of Petition for Writ of Certiorari.

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IN THE

# Supreme Court of the United States.

No. . October Term, 1941.

MAHOGANY ASSOCIATION, INC., AND THOMPSON MAHOGANY COMPANY,

*(Defendants-Appellees Below),*
*Petitioners,*

*v.*

BLACK & YATES, INC., THOMAS E. POWE LUMBER COMPANY AND WALTER G. SCRIM,

*(Plaintiffs-Appellants Below),*
*Respondents.*

## ADDENDUM TO BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

Since our Petition for Writ of Certiorari was filed, an article appeared in 42 Columbia Law Review, No. 6, June 1942, entitled

"ERIE v. TOMPKINS: IN RELATION TO THE LAW OF TRADE MARKS AND UNFAIR COMPETITION"

by Sergei S. Klinkoff, which we think should be called to the Court's attention as it contains comment on the instant case, as follows:—

"There would seem to be no reason or policy for a wholesale departure in equity actions from the basic

rule of the *Erie* case that accidents of diversity of citizenship should not be allowed to produce differences between state and federal court decisions. *But cf.* the recent decision of Black Yates Inc. v. Mahogany Ass'n, C. C. A. 3d, June 10, 1942. Relying upon the decision in Sprague v. Ticonic Bank, 307 U. S. 161 (1939) the circuit court of appeals advanced the view that equitable remedies are to be granted by the federal courts '* * * in accordance with their own rules. * * * The rule of Erie R. Co. v. Tompkins being determinative of substantive rights, there is still preserved to the federal courts a uniform basis for granting equitable *remedies* in cases in which *substantive rights* have arisen under state law.' Endless confusion and uncertainty can be the only result of this viewpoint which requires a varying of the governing law as between *rights* and *remedies*. The artificial nature of any such dichotomy has long been recognized and it is regrettable that a distinguished court should not only perpetuate it, but require that the differentiation be made in order to apply different bodies of law to what is a single and indivisible question. Realistically what meaning or value have 'rights' apart from the remedies available for their protection?

Nor does the Supreme Court decision in the *Sprague* case support the broad distinction drawn by the circuit court between equitable *remedies* and substantive *rights*. The *Sprague* case involved the simple procedural issue of the allowance of counsel fees in an equitable proceeding. The *Erie* case was not relied upon below, nor cited to the Court and not even mentioned in its opinion.

Indeed such Supreme Court decisions as the *West* case, cited *infra* note 16, reveal the fallaciousness of the broad generalizations contained in the circuit court of appeals' opinion, in the *Mahogany* case, about *equitable*

*remedies* being entirely excepted from the dictates of the *Erie* case."

(Note 15, at page 959.)

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